

DATE: October 22, 2013

TO: Mayor and City Council

FROM: Director of Human Resources

SUBJECT: Update on the City of Hayward Workers Compensation Program

RECOMMENDATION

That the City Council reviews this report by the Human Resources Department regarding an update on the status of the City of Hayward Workers Compensation Program.

BACKGROUND

In alignment with the City Council's priorities to ensure a safe and healthy work environment and to implement programs and fiscal policies to resolve the long-term structural budget deficit and decrease costs, a full programmatic assessment of the Workers Compensation Program began in January 2011. Staff to reviewed every aspect of the program, to identify strengths and weaknesses, track, and if needed, develop additional metrics; and recommend an implementation plan to reform the program in order to ensure high quality care for injured workers and a robust injury and illness prevention program, all while reducing overall risk and cost to the City.

The primary goal of identifying changes needed to the Workers Compensation Program is to ensure efficient monitoring and management of processes impacting three fundamental program metrics:

1. Total annual program costs (measures the success of operational efficiency initiatives)
2. Number of new claims filed per year (measures success of preventative initiatives)
3. Number of claims resolved and closed per year (measures effectiveness of claims management)

These metrics are impacted by a number of factors including a healthy partnership with all stakeholders, effective claims management, quality medical services, an aggressive return to work program, and a comprehensive Safety and Illness and Injury Prevention Program.

The initial assessment process consisted of a file review of total claims and an analysis of the program budget. Staff also reviewed City policies and procedures governing the program. Needed areas of improvement identified as the primary contributing factors to excessive program costs included: a lack of communication and accountability at all levels; lack of supervisors'

understanding of the complexities of the Workers' Compensation processes and procedures; insufficient claims management processes; no comprehensive return to work strategy for the injured worker was in place; and an outdated safety and illness and injury prevention program.

Staff recommended an implementation plan focusing primarily on improvement in the areas of effective claims management, communication, and return to work initiatives because these factors have the greatest impact on the fundamental program metrics. Upon review of the initial assessment and implementation plan, the Human Resources Director assigned staff to: 1) identify and implement best practice strategies to effectively manage a workers' compensation program and provide quality care to injured workers, including supervisor training and education; 2) reduce program costs; and 3) develop and implement a citywide prevention and safety program.

Implementation of the reform initiatives began on July 1, 2012. Therefore, for reporting purposes FY 2011 data is used to establish the baseline for determining how the program has performed. Over the last two years, there have been significant improvements made in the administration of the Workers' Compensation Program that have resulted in decreased program costs, reduction of new claims, and improved case-closure rate, all while enhancing the quality of service injured workers receive.

DISCUSSION

The City is self-insured for workers' compensation. As such, it pays 100% of all costs associated with employee claims from the Workers' Compensation Self-Insurance Fund. Payments are made to the Workers' Compensation Self-Insurance Fund by transfers from all City funds through established rates assessed against payroll based on job classification type. Program costs include all related expenses such as program staffing, contract and bill review agreements, salary continuation, temporary and permanent disability payments, attorney and investigator fees, and all medical services. Moreover, controlling costs is extremely challenging because approximately 50% of the expenses charged to the program are directly related to employee wages and medical services, which continue to rise.

FY 2011 Baseline Program Activity and Current Program Trends

The program is negatively impacted by several factors including lack of communication, insufficient claims management and the lack of a comprehensive return to work program – ultimately resulting in increased costs. Substantial progress in this area has been made since the program reform began.

Communication

In 2011, there was an absence of partnerships and communication was limited to quarterly file reviews with Human Resources (HR), Department Directors and the Third Party Administrator (TPA). In 2012, staff began meeting with key stakeholders more frequently. Key stakeholders include Department Directors, the TPA, medical and legal professionals, management personnel, and injured workers.

More importantly, communication with injured workers has also been improved. In most cases, injured workers are contacted within forty-eight hours of their claim being received by JT2.

Furthermore, HR staff communicates with injured workers and their attorneys through interactive meetings. The benefit of meeting with injured workers is two-fold: 1) employees have an opportunity to inform HR of any concerns they have about the quality of service they are receiving and 2) employees are aware of the City's expectation that they actively participate in their own recovery and that their cases are being closely monitored. Holding employees accountable for prevention and recovery heightens their awareness of their important role in the management of their workers compensation claim.

Third Party Administrator

Effective claims management consists of employing industry best practices to develop and implement policies and procedures to ensure timely review, response, and facilitation of quality care to the injured workers in a cost-effective manner. The role of the TPA is essential because the TPA provides business solutions to help the City design and implement programs to prevent injuries, control and manage costs of injuries and to monitor the effectiveness of program related services and procedures.

The previous third party administrator had been with the City for over ten years. Staff recommended conducting a competitive bid process for these services. In June 2011, after a competitive bidding process, the Council approved a contract with JT2 Integrated Resources (JT2). Contracting with JT2 as the City's TPA resulted in savings in two key areas: 1) TPA administration fees, and 2) bill review fees. The cost of the TPA administrative agreement in Fiscal Year 2011 was \$332,000. This cost was reduced to \$279,000 in each of FY 2012 and FY 2013 resulting in a savings of \$106,000 over the two year period.

Medical Bill Review

Another way that effective claims management reduces program costs is through medical bill review. In FY 2011, the City paid for the service at an annual cost of \$248,000 and avoided medical costs of approximately \$1.2 million. In contrast in FY 2012, the City paid \$161,109, which resulted in a savings of approximately \$87,000 for the billing system while avoiding an estimated \$2 million in medical costs during that fiscal year.

Return to Work Program

Studies of successful programs demonstrate that where there is an aggressive Return to Work Program in place, the number of new claims, lost days, and overall program costs are significantly decreased. The programmatic assessment demonstrated the need for an effective Return to Work Program in the City of Hayward.

In FY 2011, the number of lost days was approximately 3,981. In FY 2012, the number of lost days was 4,815 and in FY 2013, this number increased to 5,221. Initial analysis of the increase in lost days indicates it is most attributable to the severity of the reported injuries and enhanced disability retirement benefits due to legislative changes in January of 2013, adversely impacting Worker's Compensation Programs statewide.

To address this increasing trend in lost work days, in July 2013, the City partnered with Norm Peterson and Associates (NPA) to administer its Return to Work Program in the Police and Public Works Departments. NPA works directly with medical providers and Department Directors to

match the physical limitations of injured workers to modified duty assignments in the City. For the period of July 1, 2013 through September 30, 2013, fifty-six claims were assigned to NPA, of which thirty-one were assigned to modified work. Through this partnership, more than 50% of injured workers in Police and Public Works Department with documented physical limitations were assigned modified work, which resulted in a savings of \$155,013.03 in salary continuation/total temporary disability payments in this short period of time.

Program Costs

Despite the high percentage of uncontrollable expenses associated with workers compensation administration, over the last two years, the City's program has demonstrated a significant decrease in program expenses. The decrease in total program expenses is reflective of the improved strategies in the overall administration of the program including enhanced communication and efficient claims management.

Table 1: Operating Expenses and Savings

	FY 2011	FY 2012	FY 2013
Operating Expenditure Budget	\$4,276,563	\$4,732,160	\$4,673,683
Operating Expenses	\$4,623,022	\$3,430,454	\$3,888,818
Operating Savings/Shortfall	(\$323,042)	\$1,192,568	\$784,865

In FY 2013, program expenses increased by \$458,364 in comparison to the previous fiscal year. This increase is largely due to an increase in total claims inventory in FY 2013. Total claims consist of new claims filed each year, as well as old claims that remain open for future medical services.

Generally, a reduction in the number of claims reduces program costs and demonstrates the effectiveness of claims management, prompt settlement and closure, and return to work and safety and prevention programs. In FY 2011, there were 205 new claims filed, 144 in FY 2012, and 138 in FY 2013. There is a demonstrated trend of a reduction in new claims. Furthermore, total claims have also decreased since 2011, when there were 310 in comparison to 231 in FY 2012, and 260 in FY 2013. The increase in FY 2013 claims is due to an increase in the number of claims that were re-opened during the period. Re-opened claims are those claims that had no activity for an extended period of time and were closed until the injured worker had a reoccurrence or resumed treatment on the claim. The overall decrease in total claims inventory since FY 2011 is reflective of effective claims management. However, there is more opportunity to support a continuing downtrend in new claims.

Future Program Goals

Prevention is a critical component of an effective workers compensation program. Prevention includes health and wellness programs, training and frequent ergonomic reviews for existing staff, and also encompasses the pre-employment physical process. The pre-employment physical component of the program is one area where there is opportunity for improvement.

Another prevention strategy is a comprehensive employee fitness program. Healthy employees are less likely to sustain work related injuries. This is especially true for employees in physically demanding positions such as police officers, firefighters, and maintenance workers. Limited staffing resources have delayed work in this area.

As discussed above, implementing the program initiatives has improved the program and decreased costs. There is still opportunity for continued improvement. For FY 2014, staff established the following program goals:

- Conduct Request for Proposal (RFP) process for occupational health services;
- Facilitate training for managers, supervisors and administrative support staff;
- Update Injury and Illness Prevention Program
- Expand Return to Work program; and
- At least two HR staff trained to be certified to perform ergonomic evaluations.

FY 2014, program metrics include:

- Reduce total claims inventory by 5% (13 claims) through timely settlement and closure of existing claims;
- Reduce new claims filed by 5% (7 claims) through prevention and training strategies; and
- Reduce lost time by 5% (261 days) through the effective use of Return to Work Program strategies.

While the City is meeting minimal legal requirements, there have not been adequate staffing resources available to complete a comprehensive update and/or revision of safety policies, the Illness, Injury Prevention Program, or to provide safety training to City workers. Moreover, ergonomic assessments and injury prevention training are currently performed by an outside consultant. The current staffing level creates unreasonable time demands on a few staff members, which is unsustainable and not acceptable to effectively manage a program of this size.

To ensure ongoing program reform and improvement, the department will add a Senior Human Resources Analyst position. The addition of this staff position will establish the appropriate program staffing level for this large and complex program, allowing staff assigned to the program to focus on meeting program goals, without compromising other essential department projects.

FISCAL IMPACT

There is no fiscal impact associated with this report. Despite the challenge of unpredictable increases in salary continuation and medical costs, the Workers Compensation Program is demonstrating an overall trend of decreased expenses of \$734,204 and improved communication and services over the last two fiscal years.

Table 2: Year-over-Year Operating Expense Comparison

	FY 2011	FY 2012	FY 2013	Total 2-Year Savings
Program Operating Expenses	\$4,623,022	\$3,430,454	\$3,888,818	
Program Operational Savings Compared to Prior FY		\$1,192,568	(\$458,364)	\$734,204

The table below further summarizes the specific outcomes achieved as a result of the reform initiatives as they relate to program metrics:

Table 3: Summary of Program Metrics and Outcomes

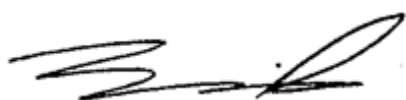
Primary Metric	Outcome
Reduce Total Expenses	<ul style="list-style-type: none">Realized total two year savings of \$734,204.
Reduce New Claims	<ul style="list-style-type: none">New claims reduced from 205 in FY 2011 to 144 in FY 2012 and 138 in FY 2013
Resolve and Close Claims	<ul style="list-style-type: none">Total claims inventory reduced from 310 in FY 2011 to 231 in FY 2012 and 260 in FY 2013

Staff will continue to assess, recommend, and implement program enhancements within existing budget authority. As such, any associated operating expenses will not impact the General Fund. The addition of the Senior Human Resources Analyst will be absorbed within the existing Workers Compensation program budget.

Prepared by: Nina S. Collins, Acting Senior Human Resources Analyst

Recommended by: Frances M. Robustelli, Human Resources Director

Approved by:



Fran David, City Manager